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CONTENTS

What and Who -- An Introduction	C. Slegman
Report of the National President	A. Brown
Fair Trade and the Discount House	J. Benjamin
The Rank-and-Filer and the Labor Racketeer	N. De Weaver
The Role of the Economist in the Business World	H. Anger
Alpha Chapter News	A. Canter & N. Michas
Gamma Chapter News	J. Maguire
Books Revisited -- <u>The Theory of the Leisure Class</u> , by Veblen	H. Anger
Recent Books in Economics	S. Velaj

CONTENTS

What and Who — An Introduction	3
Report of the National President.	4
Fair Trade and the Discount House	5
The Rank-and-File and the Labor Racketeer	17
The Role of the Economist in the Business World.	21
Alpha Chapter News.	24
Gamma Chapter News.	26
Books Revisited — <u>The Theory of the</u> <u>Leisure Class</u> , by Veblen.	27
Recent Books in Economics	28

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WHAT AND WHO

by Charles Siegman, Editor

The Journal, as the official organ of Omicron Chi Epsilon, aims to create and stimulate interest in the field and study of economics. This issue of the Journal contains articles and items which attempt to fulfill the objectives of the Journal and the Society.

The article, "Fair Trade and Discount Houses", — the winning essay of the Society's sponsored essay contest — illustrates the practical application, inroads, and influence of economics in our daily activities, in our governmental affairs, and even in Supreme Court decisions..... The subject of labor racketeering has been in the news for the past months. "The Rank-and-File and the Labor Racketeer", presents a firsthand account of this problem..... What does an economist do? What role does he play in industry? "The Role of the Economist in the Modern Business World" attempts to answer these stimulating questions..... National and chapter news gives the Society its say..... It is generally a very good idea to read or revisit books which are not current literature. The review of Veblen's "Theory of the Leisure Class" offers the reader the opportunity to interest or refresh himself in a very interesting and informative book..... "Recent Books in Economics" presents in brief outline form information regarding recent releases of economic literature..... The illustrations add interest and flavor to the Journal. We would like to thank Illy Brown, our typist.

Our contributors:

Harry Anger is a member of the Editorial Board of the Journal. He plans to continue his studies in economics at the University of Chicago.

Jesse Benjamin is an Honors student in economics at the City College. He also intends to further his studies at the University of Chicago.

Norman DeWeaver is presently concluding his studies at Fordham University. He has had outside experience in the field of labor economics. He plans to continue in this field after he has spent his two years in the army.

Werner Goldsmith, our staff artist, is a history major who intends to do graduate work at Rochester University, where he received an Alumni Fellowship.

REPORT OF THE NATIONAL PRESIDENT

by Alan A. Brown

Today practically every field of learning has its honor society. Omicron Chi Epsilon, National Honor Society in Economics, is the youngest member of this learned family. We believe that honor societies fulfill several very useful functions. They stimulate and formally acknowledge high scholastic achievement. They provide an opportunity for closer faculty-student discussions, conferences, and informal gatherings. They present a forum where student opinion may be exchanged. They enhance student initiative. They often prove to be a bridge between classroom instruction, on one hand, and the requirements of a career, on the other. Consequently, future places of employment regard highly the recommendations of honor societies.

Omicron Chi Epsilon was first conceived in December 1955. The following January the Alpha Chapter was established at the City College of New York. During the spring, several colleges and universities expressed their interest in the organization but only at Manhattan College did the students actually get together to form a new chapter. After the organization of the Beta Chapter, the National Constitution was adopted and the national president, as well as the national secretary-treasurer, Mr. John D. Gullfoill, were elected.



Prof. Kaldor (MS Photo)

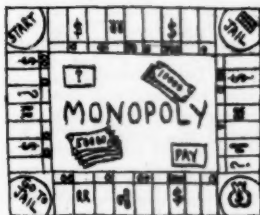
During the fall of 1956, the Society began to expand. Due to the efforts of the Alpha Chapter's faculty advisor, Professor Edwin P. Reubens, the noted Cambridge economist, Dr. Nicholas Kaldor, accepted an invitation to the First Annual Dinner of Omicron Chi Epsilon. Fourteen accredited colleges and universities were represented at the dinner.

Shortly after the dinner, seven colleges and universities took steps to establish new chapters of Omicron Chi Epsilon. The Gamma Chapter was organized at Fordham University, where the students received the warm encouragement and active support of Professor William R. Frasca, Chairman of the Economics Department, and of Professor Charles J. Walsh, faculty advisor. The Delta Chapter was formed at Queens College, Rutgers University, Hofstra College, Long Island University, New York University, and Brooklyn College are presently in the process of establishing chapters.

As for the future, alumni members, presently attending twelve leading graduate schools, and the members of the present graduating class, plan to foster the spread of Omicron Chi Epsilon outside the New York Metropolitan Area.

FAIR TRADE AND DISCOUNT HOUSES

by Jesse Benjamin



The Fair Trade Laws

The fair trade laws legalize resale price maintenance by the manufacturer. This is contrary to the American tradition of antitrust. Prior to 1930 attempts at resale price maintenance were repeatedly declared illegal by the courts.(1)

In the *Dr. Miles Medical Co. v. John D. Parks & Sons Co.* case (2) the plaintiff by a system of contracts maintained resale price to the consumer. The court said that this was in restraint of trade and therefore in violation of the Sherman Act. "A system of contracts between manufacturers and wholesale and retail merchants by which the manufacturers attempt to control not merely the prices at which its agents may sell its products, but the prices for all sales by all dealers at wholesale or retail, whether purchasers or subpurchasers, eliminating all competition and fixing the amount which the consumer shall pay, amounts to restraint of trade and is invalid both at common law, and so far as it interrupts interstate commerce under the Sherman Antitrust Act of 1890...." This decision was made despite the fact that prices admittedly reasonably fixed. Resale price maintenance was held illegal per se.

A patentee's legal right of monopoly does not include that of resale price maintenance.(3) Licenses and contracts imposed by the patentee on the purchaser were declared by the court void attempts to control price after sale by the patent owner.

General Electric owned the patents for electric lamps with tungsten filaments and manufactured most of those sold. General Electric chose a large number of dealers as its agents. The lamps were consigned to agents by the company, transportation prepaid. The sales were at prices fixed by General Electric. All the stock entrusted to the dealers remained the property of General Electric until sold. The government claimed that this system was merely a device to fix the resale price of the lamps by using "so-called agents". General Electric answered that its distributors

were bona fide agents, that it had the right to market its lamps in this manner, and that there was no limitation as to resale price upon those who purchased from agents. The court decided that under the patent law General Electric is given a legal monopoly, and that as long as it does not control the price at which the buyer may sell "it makes no difference how widespread his monopoly". (4)



Under the leadership of the National Association of Retail Druggists there were repeated attempts to get bills legalizing resale price maintenance through the Congress. In 1931, the trade associations switched the pressure from the national to the state level. In that same year the California legislature passed the first American fair trade law, similar to one which had been introduced into the Congress and had not passed. The law as it stood was ineffective since any firm which did not wish to sign was free to undercut those who did sign without the others being able to compete. In 1933 this was alleviated when a non-signers clause was added to the law. This non-signers clause meant that all merchants were forced to maintain the price of a given commodity at the level which any merchant signed to uphold.

The time was right for resale price maintenance. The seed had been planted in the prosperity of the 1920's, and was to be sown in the depression of the next decade. The growth of this attitude contrary to the traditional American preference for antitrust may be seen in the changing attitude of the court: the 1920 U. S. Steel decision, the 1927 International Harvester decision, the weakened Federal Trade Commission which has to submit to the court both legal interpretation and facts for review. The Trade Practices Conference of the Department of Commerce supported the live and let live attitude of the European cartels. With such an attitude comes the complete avoidance of price competition, the merger movement, and the growing faith in, and the adoration of, the businessman. These were the beginnings, and with the crash, and the great declines in prices and demand, the incentives not to compete were even greater. From these conditions were born the National Industrial Recovery Act, the calling of a competitor a chiseler, the birth of a very powerful trade association fondled by the N. R. A., and the Old Dearborn decision which both legalized and justified resale price maintenance.

The Old Dearborn v. Seagrams Corp. case (5) questioned the validity of the state fair trade laws and non-signer clauses under the constitution. Following this decision twenty-seven more states passed fair trade laws, and bills were introduced into Congress similar to that of Illinois, which had two sections; the first being a sanction of fair trade contracts, and the second making any non-signer who cuts price as stated in any known contract liable. By 1941,

all the states with the exception of the District of Columbia, Missouri, Texas, and Vermont, had fair trade laws. Enforcement of fair trade remained virtually within the hands of the trade association who pushed the manufacturer into fair trade and then often offered him help to support it.

A good example in the promotion of, and support of, fair trade is the National Association of Retail Druggists, a very strong trade association. When Pepsodent, who had built its market by underselling its competitors, refused to go along with fair trade, its product went under the counter of almost every druggist in the United States, and Ipana shot up and began to capture Pepsodent's market. Pepsodent returned to the fold with a check to contribute for the support of fair trade proponent organizations.

When a manufacturer wished to fair trade an item so that it might get on the white list of a trade association, it went before a local board to discuss the price at which to maintain. This board was to carry over from the N. R. A. days. The trade association was thus in a position to maintain a high markup for its members on the fair traded items.

The state fair trade laws permitted resale price maintenance when both of the parties to a contract were in the same state, but such contracts were held to violate the federal antitrust laws when the parties involved were in different states. The great bulk of goods sold at retail crossed state lines. If there were to be effective resale price maintenance the federal antitrust laws had to be amended. The National Association of Retail Druggists led the campaign for the passage of the Miller Tydings Act. The act was passed in the form of a rider to the District of Columbia Appropriations Act passed just before the adjournment of the Congress in 1937. President Roosevelt objected, but was forced to sign since by law the District cannot borrow, and without the appropriations would have been left without funds. The Miller Tydings Act did not authorize the establishment of a resale price maintenance plan, but it permitted the accomplishment of much the same objective by legalizing the flow between states of minimum price controls signed in accordance with the provisions of the fair trade laws then enacted in forty-two states.

The Miller Tydings Act resulted in an increase in the price of fair traded commodities. After the passage of the Miller Tydings Act prices increased on fair traded items in Knoxville, 10.5%, in Michigan, 15.7%, and in New York City, 25.8%. In Knoxville, on an average taken of 196 branded items sold in cut rate drug stores, between 1937 and 1938, free priced items decreased 4%, fixed price items increased 10.5%. In comparing a list of 208 drug items which were fair traded in the forty-five states which had fair trade, and Texas, Missouri, Vermont, and the District of Columbia

which did not have fair trade, the results were: 1) the average total price in the forty-five states having fair trade was \$945.10, while the average total price for the three states and the District of Columbia was \$740.86; 2) the average retailer's profit in the fair trade states was 38.5%, while in the three states and the District of Columbia the average retailer's profit was 21.5%. Thus, the consumer saved 17% in the states without fair trade. (6) Markups were standardized at a higher level by a system of vertical price maintenance.

The validity of the Miller Tydings Act was questioned in 1951 in the cases of Schwegmann Brothers v. Calvert Corporation, and Schwegmann Brothers v. Seagram Distillers. (7) The Schwegmann Brothers operated a super market in New Orleans. They refused to sign any fair trade agreements with manufacturers, and were selling Calvert and Seagrams at cut rate prices. Calvert and Seagrams sought, and won, an injunction in the District Court. Schwegmann Brothers appealed to the Court of Appeals, and the decisions of the lower court was confirmed. Schwegmann Brothers appealed again to the Supreme Court. The decision was reversed, since according to the Court nothing in the Miller Tydings Act sanctioned the enforcement of price fixing agreements against non-signers. Fair trade sat in mid air without a foundation to rest upon.

The decision was announced on May 21, 1951. On May 29th Macy's ran full page newspaper advertisements announcing a 6% cut on the prices of 5,978 price fixed items. Within three weeks the New York City department stores (especially Macy's and Gimbel's) had a full scale price war. The war spread to 40 other cities, but many important cities were hardly touched. Toward the end of June price cutting was on the wane with stocks becoming exhausted, demand being satisfied, and the manufacturers refusing to ship goods to the price cutters. The small independents who maintained price and could not meet the cuts had been hurt by the war.



That the price war was solely the result of the taking off of fair trade would be looking at history with blinders. 1950 was the year of the Korean outbreak, mobilization, consumer and merchant hoarding in the recollection of the bare shelf rationing days of World War Two, monetary expansion and inflation. 1951 saw restrictive monetary policy by the Federal Reserve, sellers of appliances and textile products found that they had ordered somewhat more than they could sell, prices of some raw materials dropped, the consumer came to expect goods to be available and was not anxious to buy. Thus, price maintenance was taken off with inventories swelled and demand down. The situation was conducive to dumping. The degree of the price cuts was an adjustment due to the time as well as the decision itself.

The fair trade proponents were immediately at the doors of Congress demanding the return of fair trade by the passage of more adequate legislation. On July 14, 1952, President Truman signed the McGuire Keogh Fair Trade Enabling Act. The law is an amendment to section 5 of the Federal Trade Commission Act. It exempts interstate contracts providing for resale price maintenance from the federal antitrust laws within states where intrastate contracts are allowed so long as the products are in free and open competition. It then provides for the maintenance of the non-signers clause, thus revoking the Schwegmann decision.

After the enactment of the law Schwegmann cut price on insulin which had a fixed resale price set by Eli Lilly & Co. Lilly sued and was granted an injunction by a Louisiana court. Schwegmann appealed to the federal court claiming that the non-signers was unconstitutional since forcing fair trade minimums on non-signers was an infringement of the "due process" clause of the Bill of Rights. The Court of Appeals sustained the verdict of the state court, and Schwegmann appealed to the Supreme Court who, however, refused him a hearing in October, 1953. In 1954 the Supreme Court refused to hear the appeals of Sam Goody, S. Klein, and review the decisions of the lower courts which have upheld the McGuire Keogh Act. (8)

Whether or not fair trade is still strong is now questionable. What will happen when and if the Supreme Court reviews the McGuire Keogh Act? Fair trade, it seems, has stopped advancing and has begun to retreat despite the fact that there are organized forces for it and none of great strength against it. In 1953, both Michigan and Vermont rejected fair trade legislation. In 1955, Nebraska, Georgia, and Florida declared the non-signers clauses unconstitutional.

Discount Houses



The Discount House has been a painful thorn in the side of fair traders and regular retail stores handling fair trade items. The discount house may permanently change the manner of retailing appliances and other hard goods, as the supermarket changed the manner of retailing food. The large difference in price for the same commodity at the retail store and the discount house can only be temporary.

There are four broad types of discounters. The distributor who sells secretly to retail trade (most advanced in furn-

iture). The industrial supply house which carries a side line of discount business in consumer commodities. The broker who will get you anything at about 10% above his cost. The straight discount house, which may or may not be formed as a buying club with cards. The discount houses offer varying levels of savings beneath retail price. The better known houses give about 20% off list price.

The discount house operates by a low inventory which is mainly kept in small items. Turnover is kept at a maximum by keeping profit margins on the individual sale at a minimum. The regular retailer often finds it impossible to compete, since he has the regular expenses of maintaining a service department which includes trucking, repair shop, parts, sales help, and the salaries to keep all these departments running. Advertising which is paid for by the regular retailer benefits the discounter. A large sales staff and inventory is often at the disposal of the discounter without cost. The discounter may merely say to the consumer, "See which product you want at X store, and then come and see me and we will get it for you at the discount price, shop at my competitor's but buy here."

The full package of retailers' services given by the best of the retail stores as compiled by the Consumer Report Magazine of January, 1950 would include: 1) store location convenient for the shopper. This the discount houses have met, especially within the last year, as they, as well as many other retailers have begun to move into and expand within the suburbs. Within cities discount houses have appeared in the heart of shopping, factories, and office areas. 2) Prompt, courteous service by sales clerks who know their merchandise. This the discounters have profited of the retailers, as mentioned above. The discounter avoids inventory and sales salaries and commissions by often telling his customers to go to the department store, look at the appliance in mind, and get the style number so that he may get it at a discount price. Although this is still true to a degree, the rise of the larger discount houses which keep floor models, and the refusal of many retailers to give style numbers has checked this. 3) Charge account privileges. These have been kept to a minimum in the discount houses with outside firms writing up any accounts. 4) Prompt and free delivery service. This offer by the retailer cannot be met by the discount house since it chooses against large inventory and service facilities in favor of the lower price. 5) Refunds or exchanges with no questions asked, although the merchandise is in good condition, and pickup and delivery service on exchanges. These are services which cannot be met by the discounter. 6) Service and repairs at no cost, or a minimum cost to the consumer is lacking in the discount house. Service and repairs are not limited

to the terms of the manufacturer's guarantee when purchased from the conventional retailer.

The cost of distribution of appliances and other hard goods is due for a permanent readjustment downward, due to the emergence of the discount house. A balance equitable to the consumer is in sight where the discrepancies between the price and the amount of service received will be established in accord with the desires of the consumer.

The discount house has grown to be an important segment of the retailing line. Polk Brothers of Chicago does a volume of \$20 million a year. San Francisco has 45 to 50 discount houses which, in 1953, did \$10 million volume, three times that of 1952. (10) The National Dry Goods Association estimates that there are over 10,000 discount houses in the United States. New York City has two giants in Masters and Korvettes, and a great many smaller discount houses. In Cleveland nearly every appliance store operates as a discount house with the exception of the department stores. This great growth has resulted from the selling of merchandise a great deal cheaper, the quiet refusal of most of the manufacturers to prosecute or withhold shipment to some of their best customers, and the loopholes in the fair trade laws.



The Sunbeam v. Wentling case (11) resulted when Sunbeam brought suit against Wentling for cutting price on its products. The court stated, accepting Wentling's defense, that shipment of fair traded goods from one fair trade state to another may be sold at cut rate since interstate commerce must be placed above the state fair trade laws. The contradictory view that fair trade statutes of one state apply to goods shipped into another was later upheld in a contradictory decision by a Baltimore Federal Court.



The discount houses have now resorted to doing a large mail order business from those free price areas which remain. Masters and Korvette do a large mail order business from Washington, D. C. Texas, Vermont, or Missouri can also be used. There are other common local means of getting around the fair trade laws. For example, a fair traded item may be sold for list while a non fair traded item will be sold for practically nothing. In San Diego a \$5 trade-in was offered on an old frying pan toward any Sunbeam appliance, while in Detroit a \$20 trade-in was offered on any old broom toward the purchase of a fair traded vacuum cleaner. (12) A few companies, such as Sunbeam, Crosley, and Schaefer, have attempted to maintain resale price, but the average manufacturer has looked the other way when his distributors sell the discounter. The confusion concerning the fair trade laws

has also helped the growth of the discounter. This confusion is exemplified by Federal Trade Commissioner Albert Corretas statement about the McGuire Keogh Act, "What bothers me is that sometimes I'm not positive as to what the words used by Congress mean."

The argument for fair trade is based in a good part on the "leader". A "leader" is a well known product with an established and commonly known price which is advertised by a concern at less than the price, and at a loss to him, or with an insufficient markup to keep him in business. The psychology of the "leader" is to bring the consumer into the store for the "leader", and he, thinking that besides the "leader" there are many other bargains, will buy other things ("sucker items") which will compensate the merchant more than adequately for the loss taken on the "leader". The "leader" creates the false impression that all of the shop's goods are cheaper. (According to Consumer Reports, the discount houses have not been known to use the "leader", but have generally maintained a uniform discount on all the merchandise.) The consumer pays all that he would otherwise pay -- and more -- since he does not confine his buying to the "leaders". The product must be dropped by the non price cutting shops who cannot afford to take the loss. The price cutter finally throws out the line when it loses its pulling value. The consumers are deprived of the opportunity to buy the product. The small retailer does not handle the product any longer. The manufacturer has lost his market.

Fair trade will reduce the cost of distribution, according to Dr. Mystrom of the University of Wisconsin. (13) The argument follows: the price cutter's loss on the "leader" must be covered by his gross profit on other items sold. The regular dealer's loss of time, labor, and expense due to rearrangements made necessary by the price cutter must be included in the price of the product. There are also added selling expenses of the producer, who must spend more money on advertising, and in other ways to prevent the loss of his markets, as described below. These added selling and marketing expenses must result in higher prices for the consumer. Fair trade, by eliminating this, will reduce the costs, and lower the price to the consumer.

Fair trade, it is argued, will equalize the conditions of competition between large and small dealers. Resale price maintenance at the same time will effect no "legitimate" retailer adversely, except such concerns that use the "leaders". Cut throat competition will be eliminated.

Resale price maintenance not only stops the use of the loss "leader", but permits and encourages the establishment of large profit margins resulting from high markups fixed at excessively high prices. The cost to the consumer in the free price areas is 17% less than in the fixed price areas of the United States. (14) A comparison of the prices of a

few well known commodities in Washington, D. C., which has free pricing, and surrounding Maryland and Virginia which have fair trade, will illustrate the point. (15)

	Maryland (fair trade)	Washington (free pricing)	Virginia (fair trade)
Insulin	\$ 1.29	\$.98	\$ 1.48
Bayer Aspirin	.59	.46	.59
Phillips Milk of Magnesia	.39	.34	.39
Ipana Tooth Paste	.47	.37	.47
Gillette Blue Blades	.98	.87	.98
Meades Oleum Percompheum (an essential baby vitamin)	3.49	2.63	3.29
Ex-Lax	.28	.19	.25

Price maintenance destroys competition among the retailers. the efficient are compelled to sell at the same price as the inefficient. This is not a case of the marginal producer, since in the long run the efficient cannot expand and reduce the cost to the consumer. Expansion based on a lower markup and a greater volume of business is inhibited. Inefficiency is fondled. Both greater efficiency on the distribution side and on the manufacturing side are of potential benefit to the consumer. Fondling inefficiency with resale price maintenance on the distribution side means greater cost to the consumer, greater cost for the support of the inefficient, a slowed rate of technological improvement in the field due to the dampening of incentives for greater efficiency by dampening the rewards of the successful competitor.

Brand names are often removed from products and sold for less rather than reduce the price of the branded product. The producer has two marginal revenue curves, one for the product with the brand name, the other for the unadvertised product, both identical. The manufacturer reduces his average unit cost, and increases his overall marginal revenue (by combining the two marginal revenue curves), and thus profit is maximized. The consumer on the other hand is cheated since if a consumer listens to the advertising he pays a higher price for the same product which he might have purchased for less. (He also might purchase an inferior product for less, but this results from fair trade's contribution to consumer ignorance which follows.) An unorganized form of price discrimination results which is injurious to all consumers. "Given the quantities of the commodities and the buyers' money incomes, all buyers can gain by the elimination of price discrimination, for price discrimination prevents them from reaching the contract curve." (16)

A name brand washing machine is sold for less under a different name in Sears Roebuck. Branded men's shirts are retailed for less under assumed names. Labels are ripped off, and goods are dumped, rather than reduce list price. The small retailer

for whom fair trade is supposed to be helpful is hurt. He pays approximately \$2.50 for a brand name item which is to sell for \$3.95, and a discounter has it for \$1.99. This is not a "leader", but rather the dumping of merchandise with those who do not regularly carry the line. This has been done by important manufacturers of bathing trunks, sportswear, and shirts. This is unfair and harmful to the regular distributor. It also hurts the consumer by lessening the amount of utility which he can receive for his buying dollar, and adds to consumer ignorance and confusion.

Vertical integration removes competition from the distribution level and then may proceed to a removal of competition at the manufacturing level. Vertical integration leads to horizontal integration. No manufacturer will fair trade his item at a price which might possibly be appreciably higher than that of his competitor. The distributor, on the other hand, organized into a trade association, has the opportunity to assure one that the other will "play ball", and since the incentive is there for both to attain the excess profits of monopoly, it may be done. With both vertical and horizontal integration, we have monopoly, at both levels of manufacturing and distribution. The consumer is cheated out of maximum utility for his purchasing dollar, the monopolists gain excess profits. The laxity which results from the relinquishing of free competition effects our rate of progress.

Retailers' services to the consumer, under resale price maintenance, must be paid for regardless as to whether or not the services are received by, or are available to, the consumer. The consumer is given no choice as to whether or not he desires the services, since he must pay the same price. A net loss of utility, as would be found in the allocation of goods without reference to a price system, will be sustained by the consumer.

Resale price maintenance delegates congressional powers to private organizations by giving control of the markets involved to the manufacturers and the trade associations. This was shown to be wrong in the N. R. A. days, and is still wrong. In other interferences with the market, as the minimum wage and the level of parity supports, the Congress or government agencies retain the power of setting the rates.

A great threat to this country is any tendency away from competition. The live and let live attitude against competition results in less for the consumer in terms of both the want satisfying power of the commodities consumed, and the actual amounts of the commodities consumed. This country, as others, depends upon an ever increasingly efficient technology. Monopoly dampens the incentives for improvement, as can readily be illustrated by the countries of Northwestern Europe who have suffered losses in the rate

of growth due in part to the advancement of the cartel. Competition reaps rewards to the efficient and to the innovator. Competition at the same time makes the consumer king in his decision of what, and in what quantities, he shall have different commodities produced.

The only partially valid argument for fair trade which can be accepted is that against the "leader". Dr. Mystem's arguments given above in favor of fair trade lack sight of the fact that gross profit on the individual product may vary with the efficiency of the retailer, the amount of service required and needed by his trade, and the volume of business which he might increase with reduced price. A cut in price is not a "leader".

If subsidization of the inefficient producer or distributor is a goal, we then wish to equalize the conditions of competition at the sacrifice of the more efficient dealers and the consumer. It is not necessary to establish retail price maintenance in order to combat resale price maintenance. Since the "leader" by its very nature is a known and widely sold product the manufacturer is at liberty to refuse sale, and undergo litigation. Legislation defining the "leader" and then outlawing it is also possible. Sen. Douglas in fighting the McGuire Keogh Act introduced such an alternative bill.

Fair trade is the reaction of a threatened group of merchants to the cutting of traditional markups. The majority of the producers did not attempt to establish it, and the majority are not attempting to enforce it in litigation against the price cutter. The manufacturer whose products cannot be easily subjected to dealer switching or substitution is less likely to be invited into the price fixing game than the producer whose brands compete with dozens of other products of like acceptance and quality. Fair trade helps to bring dealer pressure upon the manufacturer, who may be compelled to surrender complete authority over his pricing policies in industries where the dealers' trade associations are organized to the degree where they can tell members which products to push and which to place under the counter. (An example is the Pepsodent case of 1935 mentioned above.) Fair trade inevitably raises prices by standardizing retail markups at a high level; such a level, that in 1953 one was able to buy a brand name broiler for \$34 which was being sold in one of the known department stores for \$69.95. This seems too large a price for the service and reliability of the department store.

Fair trade is a system of vertical price fixing which may turn imperceptibly into a horizontal system of price fixing. When a manufacturer X is going to agree contractually to a price he must be assured that his competitor manufacturer Y's price will not be appreciably lower than his. This is monopoly at both levels of distribution and manufacturing.

NOTES

- (1) 210 U. S. 339 (1908)
- 210 U. S. 352 (1908)
- (2) 220 U. S. 373 (1911)
- (3) 229 U. S. 1 (1913)
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- (4) 272 U. S. 476 (1926)
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- (6) Congressional Record Volume 98 Part 7 pp. 8718-8748
- (7) 341 U. S. 384 (1951)
- (8) New York Times October 26, 1954
- (9) Business Week February 19, 1955
- (10) Business Week April 3, 1954
- (11) 185 F. 2d. 903 (1950) and Business Week June 19, 1954
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- (15) Congressional Record Volume 98 Part 7 pp. 8718-8748
- (16) G. Stigler, The Theory of Price, page 93

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July 3, 1954		
January 12, 1952	Life	Newsweek
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THE RANK-AND-FILE AND THE LABOR RACKETEER

by Norman C. DeWeaver

(Editor's note: The author of the following article is Executive Secretary of the Association of Catholic Trade Unionists, a private, educational, not a trade union, who has personally seen many of the incidents presented in this article. For further elaboration on the subject, the author refers the reader to an article by Dan Wakefield in The Nation of April 13, 1957.)

The Senate Select Committee on Improper Activities in the Labor or Management Field is drawing the attention of the entire community, including the academic community, to a highly important area of contemporary economics; i.e., the field of industrial relations.

Revelations concerning the personal finances of Dave Beck, president of the powerful International Brotherhood of Teamsters, have shocked the public and left repercussions of a still undetermined magnitude on the American Federation of Labor-Congress of Industrial Organizations. Inquiries into the use of union funds, the linkage between Teamster officials and criminal elements in the Portland area, and the brutality of union agents in the Scranton vicinity, have drawn demands for new and far-reaching labor legislation.

In the midst of the intensive scrutiny to which the areas of industrial relations and union activity are being subjected there remains an as yet unexplored field for inquiry: the effect of labor racketeering upon the worker in the shop, the man who remains, in the final analysis, the victim of the corrupt union or management official. In order to shed some light upon this facet of the problem, a convenient and useful approach might be to examine the anatomy of an industrial establishment under the control of a labor racketeer. To narrow the area of study, one may consider the situation in many firms in the New York City area, an apparently fertile target for the "pure and simple" labor racketeer.

The first step in the enslavement of the industrial worker by the labor racketeer is the "organization" of the shop by the "union". This process can occur in one of several different ways. To illustrate by way of actual case histories — first, the employer can bring the union into the shop while a legitimate union is attempting to persuade the workers to sign its membership cards.

X Co. is a small electroplating firm in lower Manhattan. Its normal work force varies from 12 to 15. The boss is Italian; 90% of the workers are Puerto Rican. On a Friday afternoon, the employer called in the workers, one by one, and informed them that there was a union attempting to organize the shop.

He said that he had no use for unions, in general or in particular, and instructed the workers to have nothing to do with this one. When the workers left work they met at the entrance to the shop an organizer for Local— of the Retail, Wholesale, and Department Store Workers — AFL-CIO. After a brief conversation on the street, the workers told the organizer that they were interested in his union and scheduled a meeting with him for the following Monday afternoon.

Over the weekend the boss called one of the workers and asked him what had happened. The worker told him. The boss then declared that there would be an organizer from a different union around, and the worker should join that union. On Monday the boss's organizer, a Mr. A from Local— of the Pulp, Sulfite Workers made his appearance in the shop. With the employer's encouragement he went around, in the shop, from one worker to another, telling them that the boss wanted them to join his union and in fact that his was the only union that "could organize on Grand Street". The workers were all eventually coerced into joining the local at the threat of being fired. The benefits of this "unionization" were that the wages remained at a level barely distinguishable from the federal minimum, no union meetings were held, no grievances processed, and several of the workers, who later brought the case before the New York State Labor Relations Board, were fired.

In some instances the employer brings the labor racketeer into the shop, even without imminent threat of being organized by a legitimate union. A contract was signed in March of 1955 by Y firm with Local—. One of the employers has testified under oath that he signed this contract before even one employee had signed a membership card in the union. In fact, the first time any of the employees knew that they were "union" members was several months later when a \$3.00 monthly deduction for "union dues" was taken out of their pay.

In other instances, the union enters the shop via signed membership cards procured by a "free lance" organizer who induces the workers to sign blank cards and then sells them, usually for \$10 or \$15 per worker, to the highest bidder.

The "organizing" of a shop by a racketeer is only the first step. Thereafter his work and his profits are insured by a written contract between himself and the boss. The racketeer receives a monetary reward in the form of a weekly or monthly check from the boss covering dues and initiation fees deducted from the workers' salaries in accordance with the terms of the contract. The boss receives the non-monetary reward of being protected from any attempt by a honest and militant union to organize the shop and of being protected against any attempts by the workers to improve their working conditions.

Analyzing such contracts, the observer can discern a fairly uniform pattern. Wages are set either at the \$1.00 per hour federal minimum or a few cents above. Vacation and holiday pay provisions are minimal. The employer can usually evade even these negligible payments by laying off workers immediately preceding a holiday or vacation period. Seniority is loosely spelled out in the contract, and is non-existent in practice. The high turnover is used to remove any potential malcontents. The contract is invariably a long-term agreement and usually renewed without changing any of its provisions.

The health and welfare funds aspect of these "collective bargaining agreements" constitutes a field of study in itself. Usually there is a health and welfare provision in the contract, and usually the workers receive no benefits under it. At least one of the racketeer-ridden locals, however, does run a union health clinic. The caliber of treatment may be illustrated by an incident when a member of the local went to the clinic for treatment. The diagnosis was "tired blood; needs eyeglasses." The worker went to the local's "free" eyeglasses center where she paid \$15 for glasses that hurt her eyes.

Such are the contracts in a racketeer dominated shop. The simple matter of any worker obtaining a copy of this agreement is a complex task. Workers who ask for a copy are usually fired. In certain cases it takes a National Labor Relations Board subpoena to produce a copy. During such a struggle, a local's business agent told a group of workers in one shop, "The contract is a private agreement between the boss and the union." He adamantly refused to give them a copy.

Workers seeking to free themselves from racketeer domination face a difficult task. In the first place, "unions" of the type described in these pages hold no meetings and conduct no elections. Thus the avenue of "reforming from within" is completely closed. Inviting a bona fide union to raid a racketeer local is an almost insurmountable task. This latter approach is blocked by the fact that many racketeers operate under charters from AFL-CIO internationals and raiding between AFL-CIO unions is forbidden by the "no raiding" pact.

A method of liberation for the victims of a labor racketeer offering slightly more hope is recourse to the National Labor Relations Board. Even here, however, the difficulties are still immense. Any worker instituting an NLRB proceeding in such a shop is usually fired at the earliest available opportunity on the slightest pretext, or in many cases, on no pretext at all. Also an NLRB action customarily takes a matter of months and can be further delayed by legal technicalities.

Then, too, in a case where the workers are trying to get the NLRB to invalidate a racketeer-boss contract they are liable to be confronted with a pre-dated contract. For instance, in a firm "organized" by a local of the International Jewelry Workers Union the workers sought to throw out the local at the expiration of one contract. They took the case to the NLRB. the boss and the "union" came in with a contract which they allegedly signed three months before the old contract expired. When the boss was asked why he had signed this pre-dated agreement, he declared, "I wanted to protect myself." Since a contract is a bar to an NLRB representation or decertification election, such a predated contract can effectively prevent the workers from escaping from racketeer domination.

Several agencies are presently attempting to break through this pattern of racketeer control in New York City, especially as the problem affects thousands of Spanish-speaking workers. A number of unions are members of an AFL-CIO Labor Advisory Committee on Puerto Rican Affairs. This group has thus far confined itself to passing resolutions condemning the situation. It invited the AFL-CIO Ethical Practices Committee to investigate four months ago, but as yet received no reply.

Many of these workers have also sought the assistance of the Association of Catholic Trade Unionists in liberating themselves from the enslavement of racketeers. The Association (also known as the ACTU) has given them advice on what means of resistance are open to them and has provided free legal representation for them at the NLRB and other governmental agencies.

Though it is agreed by all serious students of labor unions that corruption infested a comparatively small number of the country's labor unions, the evil and pernicious effects of any racketeer is unquestionable. For the workers directly involved it is a disaster of major proportions. These men and women still cherish the hope that the direct effect of racketeer influence will form a considerable portion of the evidence brought to the attention of Senate probers in consequent investigations.

THE PROFESSIONAL ECONOMIST IN THE BUSINESS WORLD

by Harry Anger

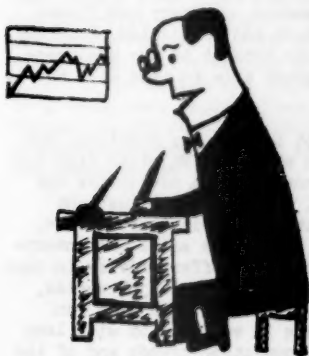
The professional economist plays an important role in mitigating and avoiding crises in a free enterprise economy, which is still largely governed by consumer sovereignty and the price mechanism. Our goals are often in conflict. No economic policy can simultaneously maximize (1) rapid growth; (2) high level of consumption; (3) stability of employment, production, and prices; (4) equitable distribution of goods and of the tax burden; (5) productive efficiency. But we can try to achieve an optimum combination.

Our economy being dynamic is characterized by change. Resources, technology, to socio-economic structure, propensities and other values are continually changing. It is this change which creates new problems and challenges for the economist in his everyday role. He must first understand the complex economic system, and then try to explain economic phenomena so as to take preventative and corrective measures. It is he who explains why the system does or does not work, and then guides us in the practical application of economic measures. Understanding the effect of any and all adverse factors is of the utmost importance in formulating corrective policy or policy in general.

Prior to the second quarter of the twentieth century, the economist played a minor role in forming public policy. His present day importance can be explained by the change in economic thinking. We have changed from the laissez-faire

view to varying degrees of government intervention. The classicists' laissez-faire was based on "invisible hand", which guided the economy. Price, competition, Say's law of supply creating its own demand, and Adam Smith's belief that each man should know his own self interest and pursue it accordingly to the benefit of the economy were the basis for this non-interference policy. The economy was believed to be a self-regulating and adjusting system, and except for short run disturbances the economy would avoid the long run excesses of inflation and deflation and tend toward full employment. Hence there was no need for inter-

ference in the free market except for central banks entrusted



with the responsibility of regulating the currency system. The manager of a relatively uncomplicated business operation felt that he could do without the services of an economist.

The depression in England of the twenties and thirties, and our own Great Depression resulted in an agonizing reappraisal of accepted and cherished economic beliefs. John Maynard Keynes in his "General Theory" showed that equilibrium at full employment was only one specialized case. According to Keynes, an economy could be at equilibrium at less than full employment and could remain there. No longer could an economy be thought of as a self regulating and adjusting mechanism tending toward full resource utilization.

Accordingly, governments accepted the responsibility of pursuing counter-cyclical policies to maintain a stable healthy economy. The academic economist emerged from his seclusion to play an ever expanding role in everyday business as well as governmental policy.

The need for governmental action stimulated the search for new tools of analysis, measurement, and forecasting. Professor Vassily Leontief of Harvard pioneered in developing econometric models based upon mathematical equations purporting to explain the operation of the economy. By understanding the structure and functioning of our economy, the policy and decision making of government and business bodies can be improved.

Economic analysis and forecasting is widely used by management. Government and business decisions depend upon the economists' forecasts. Various techniques such as national income analysis, econometric models, monetary and fiscal theories are used for measurement and prediction. External forces which affect business are brought to the businessman's attention so as to be better able to cope with the vicissitudes of the economy.

The economist's job depends not only on his abilities but also on the company's size and attitude. We often find the economist removed from the minor business activities and attached to executive offices. He may study investment prospects, offer advice on matters of price, production, and basic research. He guides the firm's sales and inventory policy and production schedules; offers advice in case of plant expansion and mergers. Although his job varies, his chief function is the making of short and long run forecasts. These sales forecasts in conjunction with long range studies of G. N. P., of population trends and of the labor force, form the basis of the company's capital budget.

Management decision-making is simplified and improved by the

use of economists. Economists develop improved decision making techniques as those used for inventory control (i.e. the point at which inventory should be replenished) and optimum size order lots. Linear programming is used in determining optimum product mix and output as well as in selecting the most economical shipping routes. Formulae for capital goods replacement policy are also developed by the economist. He may devise methods to minimize production costs and employment fluctuations. The cost of laying off and rehiring workers is compared with the alternative cost of increasing and decreasing inventory and overtime rates. Formulae are used for calculating optimum monthly production and employment, and even where sales forecasts were far from accurate sizeable cost savings have been made.

There is a growing but as yet controversial movement to use econometric models for a better understanding of consumer behavior, consumption functions, and future capital requirements. Economic research, basic and applied, leads to more intelligent and effective policy due to a better understanding of the economy. Yet not enough financial support is forthcoming from business which has the wherewithall and stands to gain directly from the fruits of this research. It is one more instance of man not knowing his own self interest.

Hard-headed businessmen and budget conscious Congressmen pay implicit tribute to the growing importance of the economist. In spite of recurrent economy drives the number of professional economists has steadily increased in both industry and government during the past decades. During the past twenty five years the number of economists in industry increased fifteenfold. The total number of professional economists rose from 5,000 to more than 13,000 during the same period. ("The Economy's Scots", *Fortune*, December 1955, p. 100.) The demand for professional economists in industry is growing more rapidly than either academic or government demand. As the economy continues to expand the need for professional economists is expected to increase at an increasing rate.

ALPHA CHAPTER NEWS — THE CITY COLLEGE

by Alan Canter & Nicocles Michas

The Alpha Chapter has had an active term. New members have been admitted, and the foundation for a solid organization has been established. The Chapter is planning a luncheon meeting on May 16, where all the faculty members of the Economics Department and members of the Chapter will have an opportunity to "get to know each other better". Much credit for the Chapter's progress is due to our faculty advisors, Professors Edwin P. Reubens and Joseph Cropsey.

Most of our members plan to continue their studies upon graduation. All those who have already applied to graduate school have been accepted, and the various fellowships, scholarships, and assistantships offered to our members is a personal pride not only to them, but also to the Economics Department and to the Society.

The plans of our members vary. Harry Anger has been accepted at the University of Chicago where he plans to study economic development and change. He plans to teach or to be an economist at the United Nations. Jesse Benjamin intends to join Harry at the University of Chicago and to earn his Masters in economics there. Alan A. Brown the national president of Omicron Chi Epsilon and member of Phi Beta Kappa, has been awarded a national Woodrow Wilson Fellowship which will enable him to continue his studies at Harvard University. Alan's exceptional record, both academic and extracurricular, has been recognized by five other universities which have offered him scholarships and fellowships. Alan Canter, the Evening Session's vice president of the Alpha Chapter, is presently working in the business analysis branch of an economics research organization. He intends to further his studies in this line at some later date. George Jodko, our former secretary, intends to continue his studies for his Masters at Columbia University. Constantine Liebholtz, our present secretary, has received a fellowship to Brown University where he will study for his M.A. in international economics. Meron Medzini, who has recently been elected to Phi Beta Kappa, has been awarded a tuition scholarship at Johns Hopkins University in the School of Advanced International Studies. Nicocles Michas, who has recently been elected to Phi Beta Kappa, plans to continue his studies in economics at Columbia University. Esriel Oppenheim, presently studying for his Masters at Columbia University, hopes to make his career in finance. Nissen Oren, a member of Phi Beta Kappa, is presently working toward his doctorate in Public Law and Government at Columbia University. Charles Siegman has been awarded a University Fellowship and a Departmental Assistantship at Johns Hopkins University. He has, however, declined their offer and has decided to take up graduate study at Columbia University where he intends to specialize in the

study of economic growth and development. Daniel Szabo has been awarded a tuition scholarship at Johns Hopkins University in the School of Advanced International Studies where he intends to specialize in the study of political and economic problems of South East Asia. Douglas Tarshes intends to continue to study for a Masters here at the College, in the newly established Graduate Department of Economics. He plans to specialize in Industrial Labor Relations. David Veder plans to work in the financial world. Salahedin Vela expects to continue his graduate work in economics either at Columbia University or at Cornell University, where he has had an offer for a departmental assistantship. Charles Waldauer's plans for the future are not yet definite. He expects to enter the Service. Sol Westrich, former editor of the Journal, has been accepted at the University of Wisconsin where he plans to specialize in the study of the History of Economic Thought.

The Alpha Chapter is happy to welcome the following newly admitted members: Joshua Adler, Lawrence Bratskier, Theodore Gewertz, Bert Linder, Robert Scheer, Harry Slater, and Muriel Zieve.

The plans and expectations of our members indicate their continued interest in the field of economics. We could only wish them continued success and a bright future.

GAMMA CHAPTER NEWS -- FORDHAM UNIVERSITY

by James Maguire

The organization of the Fordham chapter of Omicron Chi Epsilon is now in its final stages. Dr. Charles Walsh has announced that invitations to membership have been sent to fourteen students. The group is composed of ten juniors and seniors from the College, and five students in the Graduate School. It is likely that the membership will be increased substantially at the end of this semester, when a number of juniors will complete the requirements for membership.

A dinner is being planned some time during May to mark the formal acceptance of the Fordham chapter into the National Body, as well as to welcome new members. This dinner will be a tribute to the work of Dr. Charles Walsh, who has been responsible for the foundation of the Society at Fordham. He recognizes the importance of such an organization to the student of economics, and has agreed to become the faculty moderator of the chapter in addition to his many other duties. His efforts have not gone unnoticed, and the members of the Fordham chapter are grateful for all he has done in their behalf.

The chapter will lose six of its members in June via graduation. The six are Norman DeWeaver, Edward McGuire, James Maguire, John O'Brien, Walter Preisser, and Carl Schwarz. Uncle Sam will claim three of them as second lieutenants, two in the Air Force and one in the Army. Norm DeWeaver is our Army man. After his two years with the Army he plans to continue in the field which has occupied him throughout his college career, labor economics. For two years he has been editor of the Labor Leader, the publication of the Association of Catholic Trade Unionists. His broad experience in this field was the basis for his article, "The Rank-and-File and the Labor Racketeer", which appears in the Journal. Norm's enthusiasm for this work has spread to another of our members. Ed McGuire has joined him at ACTU, and plans a career in labor relations. Ed declined a fellowship in economics at Brown University. He feels that it would be better to obtain a position within his field before continuing his studies, so that his graduate work would be more profitable. Our other Maguire, Jim, has decided to enter graduate school in September, and has accepted an assistantship at the University of Florida. Carl Schwarz will go into flight training with the Air Force during the summer, and plans to attend Fordham Law School when he has finished his tour of duty. Walt Preisser isn't due for active service until October, and will be with General Electric until that time. Jack O'Brien, a Navy vet, has also obtained a position with GE. Both men will go into the Business Training Program of the company. Walt and Jack are two of 100 men chosen from among the 4,000 applicants interviewed. The fact that they were chosen seems to indicate that industry today recognizes the value of training in economics for their future executives.

BOOK REVIEW

The Theory of the Leisure Class by Thorstein Veblen
258 Pages — Mentor Pocket Book No. M93

Reviewed by Harry Slater

The distinctions between activities that are "honorific" in the barbaric stages of cultures and those which are menial and inferior, form the basis, according to Veblen, of the later distinctions of the more developed societies. The "honorific" activities are those which give evidence of the prowess and skill of those more aggressive and resourceful members of the predatory community. At an early stage trophies, such as captive women of neighboring tribes, are sources of praise and envy to their possessors. Naturally other members emulate the more successful warriors.

The menial business of preparing the meals of the successful hunters and the other everyday chores are left to the women and those men not able to fight or hunt. Work of every day thus becomes disdainful, and the activities of exploit, be it those of war, state-craft, ritual, or hunting, become esteemed.

In time, the fruits of these exploitative activities — the conquered wives and other slaves — confer a prepotency on their possessors, so that the wealth itself becomes more esteemed than the activities that begot them. This is so because the opportunities for forms of exploit other than wealth accumulation are more limited when societies progress. "Pecuniary emulation" becomes the ferment in the social order.

The desire for improved living standards is thus seen by Veblen to be based more on psychological needs than on consumptive needs — the need for self respect in the face of unfavorable notice on the part of the prepotent members of the society. The need for goods and services is consequently as insatiable as is the spirit of emulation induced by invidious comparisons. The psychological needs form the undercurrent of the feverish stream of social life. The surface reflections are, however, transitory — constantly shifting and assuming new patterns.

Manners, spending habits, and social values may have proximate causes that blur the ulterior motives of invidious comparisons, but there is much limited validity to Veblen's analysis of the twenties. The leisure class is now considerably enlarged, judged from the view of conspicuous consumption, but is still limited from the view of absentee investors.



To do justice to Veblen, one ought to be familiar with the whole range of his thought to which "The Theory of the Leisure Class", however, is a stimulating introduction.

RECENT BOOKS IN ECONOMICS

Compiled by Selahedin Velaj

Oxford University Press:

A Critique of Welfare Economics Second Edition by I. M. D. Little
136 pp. \$ 2.50

In this second edition the author has modified and extensively rewritten some parts on various aspects of the current state of welfare and welfare administration in New Zealand, the world's closest current approach to the true welfare state.

Bulk Buying from the Colonies by Charlotte Leubuscher
224 pp. \$ 4.80

A study of colonial commodities bought by England. The study is primarily concerned with the bulk purchase in the post war years after the return of free commodity markets, and the effects of bulk purchase upon British Colonial policy and upon external relations of the United Kingdom. This book contains fifty pages of statistical information.

Central Banking After Bagehot by R.S. Sayer, Prof. of Economics, University of London
150 pp. \$1.90

Professor Sayer deals with selected aspects of the subject, especially in the light of English experience since Bagehot's Lombard Street. Subjects discussed include possibilities of central banking in underdeveloped countries, bank rate policy, open market operation, and control over volume of bank deposits.

Survey of International Affairs, 1939-1946 edited by Arnold Toynbee and Veronica Toynbee
400 pp. 3 color maps \$8.00

This volume describes the principal events in the neutral states during WorldWar II. It also deals with the difficulties experienced by the neutral states and how their status affected belligerents. Three chapters deal with economic warfare.

Richard S. Irwin, Inc., Homewood, Illinois:

The Accumulation of Capital by Joan Robinson 456pp
This book deals with the classes of income, the meaning of wealth, the meaning of money, capital and income, accumulation in the long run, the short run, the rentier, land and international problems.

Labor Economics and Industrial Relations by A.L. Gitlow, N.Y.U.
725 pp.

A comprehensive coverage of labor economics and industrial relations is provided in this new basic text. The areas covered are: background material, trade unionism and industrial relations, wages, employment, and security.



